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DEPARTMENT FOR EAP/CM, H PLEASE PASS TO SENATOR HAGEL

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SUBJECT: SCENESETTER FOR THE VISIT OF SENATOR CHUCK HAGEL
TO BEIJING

SUMMARY

1. (U) Senator Hagel, your visit comes at a momentous time in China's history and in our bilateral relationship. January 1, 2009, will mark the 30th anniversary of official United States-China relations. During those thirty years, the U.S. Government presence in China has grown dramatically. The 500 Americans and 600 Chinese in the Embassy community welcome you to China and look forward to helping you to have a successful visit. In terms of size and composition, the U.S. Embassy in Beijing is the third largest in the world. This month, we will move into our new Embassy compound.

2. (SBU) Your visit to Beijing will allow you to witness the transition underway as China assumes a leading role on the global stage. Beijing's Olympic Games gave the world a clear look at the new buildings and infrastructure that typify China's cosmopolitan cities and which demonstrate that the transformation of urban China from grey Maoist orthodoxy to dynamic economic powerhouse is nearly complete. However, the same confidence and ideological flexibility that allowed China to shake off its Marxist economic shackles is lacking in the political sphere. The pace of political reform lags and the security organs move swiftly against any group deemed a threat to central authority, in the name of maintaining "stability." This drives our ongoing friction with China in the human rights arena, where we vigorously demand that China respect the rights of its citizens as well as the will and conscience of the international community, which the Chinese Government just as vigorously protests as "unreasonable interference" in its internal affairs.

3. (SBU) China's transformation is also evident in the international arena. We see increasing evidence of China's growing confidence in world affairs, including its leadership role in the Six-Party Talks, and its assertive (and often frustrating to us) stance in the UN. Leaders in Beijing are watching the global financial situation closely and recognize the need to consult regularly with other countries. Your interlocutors will be keen to hear your views about how to resolve the present predicament. End Summary.

Economic Policies Foster Stability

4. (U) For China's top leadership, economic issues are important mainly as a tool for continued political stability and continuity, as well as for shoring up the Communist Party's legitimacy, which is predicated largely on its ability to deliver stunning economic growth over the past three decades. In the first half of 2008, the leadership focused on double-digit inflation which threatened to erode the high-saving populace's nest eggs. Beijing adopted credit and tax policies that slowly cooled economic growth from 11.9 percent in 2007 to 10.4 percent in the first half of 2008.

As fears of inflation abated, Beijing has now turned its attention to unstable international financial markets and prospects for lower industrial production growth, with its implications for slowing job creation and popular dissatisfaction.

Financial Markets

15. (SBU) Chinese commercial entities have limited direct exposure to global financial instability. The same cannot be said for the Chinese Government, which has about USD 1.2 trillion in foreign exchange assets invested in the United States (including about USD 500 billion in GSE debt, USD 500 billion in Treasury bonds, and another USD 200 billion in other dollar assets). China has acted in a generally responsible way when addressing global economic concerns and the Chinese economy has proved to be quite resilient. Chinese Government interlocutors have been very interested in the role of Congress in stabilizing markets as well as how Congress and the Administration work together to resolve pressing economic issues. The Chinese are also extremely interested in prospects for growth and import demand in the United States.

Exports

16. (U) Currently, China's exports remain strong, growing at over 12 percent annually in RMB terms (over 20 percent in dollar terms). With demand in China's big-three markets expected to contract, however, Chinese exporters face

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declining profits. Beijing has apparently responded to their concerns in part by slowing dollar-RMB appreciation, although the RMB continues to appreciate overall against a basket of trade-weighted currencies.

Messages for Economic Leaders

17. (SBU) In our meetings with economic officials we express our appreciation for China's close coordination with the United States on financial and economic issues, noting the fundamental role of the Strategic Economic Dialogue (SED) in improving economic relations. We encourage the general direction of China's economic policies, including RMB appreciation, improving market access and strengthening transparency and rule of law for investors, but note the need for China to do more. Staying the course on economic reform during challenging economic times is crucial to China's long term economic health and to addressing global protectionist pressures. We would welcome an active, constructive Chinese role in expanding global market access, such as working to bring the Doha Round of WTO negotiations to a successful conclusion.

Energy Consumption

18. (SBU) China imports nearly half of the 8 million barrels of oil it consumes per day. Saudi Arabia, Angola, Iran and Russia are the largest suppliers, and with domestic oil production flat, China has sought deals in more remote and riskier locations such as Sudan and Iraq to cope with growing demand. China accounted for 38 per cent of the rise in world oil demand in 2006, according to the International Energy Agency (IEA). China remains heavily dependent on coal as a primary energy source (63 per cent). Efforts are being made to diversify to cleaner carbon based fuels (natural gas) and other renewable sources (hydroelectric), but the IEA estimates coal will still dominate the energy profile in 2030 (unchanged at 63 per cent).

World's Largest Greenhouse Gas Emitter

¶9. (SBU) China is the world's largest greenhouse gas emitter, and the continued reliance on coal will challenge attempts to improve the country's environment. Industrial policy has attempted to direct investment away from high energy consuming industries, hoping to cut energy consumption per unit of GDP by 20 per cent from 2006 to 2010. China still consumes nearly four times as much energy per dollar of GDP than the U.S.

Energy Subsidies

¶10. (SBU) China has increasingly come under international criticism for domestic energy subsidies which keep prices below international norms. In July 2008, China responded by raising petroleum based fuel prices by 15-25 per cent and electricity prices by 5 per cent. Electricity prices may be raised again in November 2008. The U.S. has engaged with China on a number of fronts related to energy, including the Strategic Economic Dialogue's (SED) Ten Year Framework on Energy and the Environment. The Joint Working Group will identify several partnerships at the Dec. 2008 SED. Cooperation also is taking place in the civilian nuclear sector through the Department of Energy.

Playing a Constructive Role Internationally

¶11. (SBU) As China's economic influence has grown, so has its international political importance. Although China no longer instinctively aligns itself with other developing countries, it maintains its long-standing close relationships with pariahs like North Korea, Burma and Iran. Over the past few years, however, China has demonstrated a desire to become a more responsible member of the international community. Our challenge is to motivate China to play a positive role in coping with thorny global issues like non-proliferation, UN reform and climate change with the same degree of seriousness it has demonstrated recently in supporting the Six-Party Talks for the denuclearization of the Korean Peninsula. The Chinese dispute their label as a rising global political power and claim they do not threaten the international status quo. Chinese leaders such as Premier Wen Jiabao emphasize China's inward focus, given the enormity of the country's

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domestic challenges, in particular the need to improve the lot of the 800-900 million rural Chinese who have yet to realize the benefits of "reform and opening" that have accrued to the increasingly prosperous members of China's urban middle class.

North Korea and the Six-Party Talks

¶12. (SBU) For all of China's protestations that it is still a poor, developing country, its greater global footprint is undeniable. China has at times frustrated us with its unwillingness to act, but in some cases, China has played a constructive role. China's role in the Six-Party Talks is perhaps the most visible example of China's willingness to cooperate regionally. China strengthened the multilateral denuclearization effort, serves as the Chair of the Six-Party Talks, and has exercised leadership in the effort to secure an effective mechanism to verify the North Korean nuclear declaration.

Iran

¶13. (SBU) Chinese leaders say they share our strategic goal of thwarting Iran's nuclear ambitions and have stated publicly that a nuclear armed Iran is not in China's interest. China has worked with the United States in the "P5

plus 1" process to reach consensus on four UN Security Council resolutions on Iran. However, China regards energy cooperation with Iran as a "core interest" crucial to the development of its economy. China therefore has resisted sanctions that might threaten Chinese involvement in Iran's energy sector. American experts continue to emphasize that Iran's threat to peace and stability in the Middle East outweighs any short-term advantages China gains from maintaining good relations with Tehran.

Pakistan

¶14. (SBU) China and Pakistan have enjoyed decades of close relations. China is concerned over instability in Pakistan and, specifically, how Pakistan's political morass affects Pakistani efforts against terrorism. China believes that some of these separatist/terrorist elements in Pakistan have links to the very small armed separatist groups in China's Muslim West. China welcomes dialogue with the United States on Pakistan and your visit offers an opportunity to reinforce the importance of cooperation to help Pakistan, including via the newly formed "Friends of Pakistan" group.

Burma

¶15. (SBU) Chinese leaders say that they convey to the Burmese regime the need for dialogue with the opposition and minority groups, democratization, and economic reform. China has also been very helpful in urging Burma to work with UN Special Advisor Ibrahim Gambari. As a practical matter, China's efforts have had little to no effect on the situation in Burma, possibly because China resolutely opposes sanctions and maintains growing commercial interests in Burma. Chinese officials counsel patience and persistence and urge Western nations to have modest, "realistic" expectations for political change in Burma. We regularly urge China to use its influence more aggressively in Burma.

Sudan/Darfur

¶16. (SBU) The Chinese Government was instrumental in brokering the creation of the "hybrid" UN-African Union Peacekeeping force in Sudan. China has also contributed a contingent of engineers to peacekeeping forces. This, for China, represents significant action on an international problem. As a result, China bristles fiercely at criticism that it somehow is not doing enough to end violence in Darfur. Consistent with their position in other international crises, Chinese leaders resist robust sanctions against the Khartoum regime. They also counsel patience and "realistic" expectations just as they do with Burma. China has blamed Sudanese rebels for the lack of progress toward a political solution. We express appreciation for China's contributions to a solution in Darfur but also urge China to employ its influence more aggressively to press the Sudanese Government.

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Military Relations

¶17. (SBU) In recent years we have made some progress in building the U.S.-China military-to-military relationship. Exchanges in both directions, including by senior military leaders, have been an important step in beginning to break down the barriers of mistrust. China justifies its continued double-digit increases in military spending as necessary after decades of flat or no growth. However, many experts remain frustrated by China's lack of transparency about its military development. The recent decision to sell defense articles to Taiwan has resulted in the postponement of a number of military to military and strategic engagements

(more below).

Counter-terrorism

¶18. (SBU) We worked closely with the Chinese in the lead-up to the Olympics to share best practices in ways to combat terrorism. Given their own concerns about Islamic separatists in the western parts of the country, Chinese officials acknowledge our shared need to stop terrorism. While we support Chinese efforts to address domestic security concerns and the violence in China's Muslim west, we also caution China on the need to avoid infringing on the religious freedoms of Chinese Muslims under the guise of fighting terrorism. International human rights groups have stated that China's efforts to fight what it calls separatism and terrorism in the west have at times crossed the line into oppression of the Uighur people.

Non-proliferation

¶19. (SBU) We routinely share information with Chinese authorities about suspected violations of proliferation regimes and have had some success in preventing shipments or shutting down suspect operations. On the positive side, China adopted several laws in recent years aimed at curbing proliferation activities by Chinese companies. There is still a long way to go, and visiting U.S. experts continue to underscore the need for tougher safeguards and more transparency in China's own proliferation efforts to track suspect shipments and to curb proliferation.

Taiwan: Improved Cross-Strait Ties, Arms Sale Tension

¶20. (SBU) Taiwan remains the most nettlesome issue in U.S.-China relations. Cross-Strait relations have nonetheless witnessed significant improvement since March 2008, following the election of Taiwan President Ma Ying-jeou, who has publicly pledged not to seek Taiwan independence. The goodwill Ma has generated resulted in positive steps such as the re-establishment of the cross-Strait dialogue mechanism, commencement of weekend charter flights and Mainland tourist groups traveling to Taiwan. Many difficult political issues remain, including the long-term nature of cross-Strait relations, Taiwan's participation in international organizations and U.S. arms sales to Taiwan.

¶21. (SBU) Following the October 3, 2008 notification to Congress of the U.S. Government's decision to sell defense articles to Taiwan, the Chinese Government reacted sharply, issuing a "strong protest" and warning that it will respond with "corresponding measures." The PRC subsequently announced it was canceling or suspending a number of military-to-military contact events in 2008, as well as suspending cooperation on four bilateral arms control and nonproliferation matters.

¶22. (SBU) Our message to China on the arms sales has been to affirm the U.S. commitment to our one China policy based on the three Joint Communiques and the Taiwan Relations Act (TRA); express our conviction that U.S. arms sales to Taiwan contribute to stability in cross-Strait relations; state that the United States welcomes recent improvements in cross-Strait relations and supports the peaceful resolution of differences between the two sides; encourage China to pursue constructive cross-Strait dialogue to reduce tensions further; and urge reductions in China's military build-up across from Taiwan.

Human Rights

¶23. (SBU) The Chinese like to define human rights broadly to include factors affecting economic and social well-being, pointing out that China's "reform and opening" policies of the last 30 years have coincided with gradual improvements in the quality of life enjoyed by hundreds of millions of Chinese. They further argue that our focus on individual rights and liberties reflects "Western values." We respond to this self-serving argument by noting that these are universal values, as the Chinese themselves acknowledged when they signed the Universal Declaration of Human Rights. Although freedoms for Chinese citizens have expanded over the past 30 years, the overall human rights situation in China remains poor in many respects. We continue to emphasize that the expansion of individual freedoms, respect for the rule of law and the establishment of a truly free and independent judiciary and press are in China's own interests, and would enable the PRC to deal with social tensions and achieve its goal of building a "harmonious society."

¶24. (SBU) May 2008 marked the resumption of our formal Human Rights Dialogue (HRD) with China, reopening a high-level channel for raising human rights concerns after a five-year hiatus. The session, which took place before the Olympic Games, allowed for a frank exchange of views. Apart from urging fundamental, institutional reform, we also raised individual cases to highlight our human rights concerns and bring hope to activists. Key cases, which we welcome you to raise if you have the opportunity, include the cases of blind legal activist Chen Guangcheng, who was imprisoned after Western media publicized his allegations of widespread family planning abuse in Shandong Province; rights activist Hu Jia, who was imprisoned after strenuous advocacy on behalf of others detained or imprisoned in high-profile human rights cases; and Gao Zhisheng, whose whereabouts are unknown following his advocacy for activists and groups claiming rights abuses by Chinese authorities.

¶25. (SBU) Many had hoped that the scrutiny brought by the August 2008 Beijing Olympics would lead to improvements in China's human rights record, but Chinese leaders made clear that security and an "incident-free" Olympics, not the expansion of individual freedoms, were their highest priorities. They tightened controls over the media, religion, NGOs and other activists. Foreign media criticized China for breaking promises it made when it bid to host the Games. Instead of granting wide media freedom, China closed off nearly a third of the country to reporters "for security purposes" after the Tibet unrest in March. Some reporters were harassed or prevented from conducting interviews during the Olympics and promises of unlimited Internet access went unfulfilled. Beijing claimed it set up "protest zones" to accommodate legal demonstrations during the Olympics, although not a single protest was allowed to take place, despite 77 applications having been submitted. Some would-be protesters reportedly were detained, forcibly returned to their homes far from Beijing or otherwise harassed. Many dissidents were separately detained during the Olympics and Paralympics period, and were released only after the games concluded.

Religious Freedom

¶26. (SBU) China has made some limited progress on religious freedom in recent years, as Chinese citizens have gradually enjoyed more space in which to practice their religious beliefs. Chinese authorities have recently stressed the positive role of religion in building a "harmonious society."

Many Christian groups no longer operate in strict secrecy. Recent U.S. visitors to China have noted these developments in their meetings with Chinese officials and have underscored Americans' belief that religious adherents make good citizens.

¶27. (SBU) Despite these gradual positive steps, problems clearly remain. House churches, for example, are almost universally prevented from registering as legal entities, and therefore do not enjoy legal protections. There have been

multiple reports of the harassment and detention of house church Christians and the closure of house churches. For instance, authorities detained prominent house church pastor Zhang Mingxuan following his unauthorized meeting with Congressmen Frank Wolf and Chris Smith in late June. The overall situation is much worse in Xinjiang for Muslims and in Tibet for Buddhists.

Tibet/Dalai Lama

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128. (SBU) Tibet remains a raw, emotional issue here for Tibetans and Han Chinese alike. In March 2008, major violence and unrest struck Tibetan areas of China, and Tibetans and international observers accused China of brutality in the measures it took (and continues to take) to pacify the region. In July, China held another round of talks with representatives of the Dalai Lama, but there was no progress. Another round of dialogue was reportedly scheduled for this month, but in recent meetings, PRC officials have only said that they are committed to another round of talks "this year" -- provided the Dalai Lama ceases his "splittist" behavior. Recent U.S. visitors have pressed the Chinese to engage in serious, results-oriented dialogue, and stop vilifying the Dalai Lama. This step, accompanied by actions open Tibet to international journalists and diplomats, can Beijing lend credibility to Tibetan leaders who favor dialogue and negotiation over violence and unrest. We have also urged China to demonstrate greater respect for peaceful Tibetan Buddhist religious practices, a step which would contribute to long-term stability in Tibetan regions.

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